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REVIEWS AND NEW BOOKS

General Works, Theory and Its History

Risk, Uncertainty and Profit. By FRANK H. KNIGHT. Hart Schaffner and Marx Prize Essays, XXXI. (Boston: Houghton Mifflin Company, 1921. Pp. xiv, 381. \$3.00.)

The chief contribution which Professor Knight makes to the stock of ideas current in economic theory is a distinction between "risk" and "uncertainty." The term risk as commonly used

really covers two things which,.....in their causal relations to the phenomena of economic organization, are categorically different..... The essential fact is that "risk" means in some cases a quantity susceptible of measurement, while at other times it is something distinctly not of this character.....a *measurable* uncertainty, or "risk" proper,..... is so far different from an *unmeasurable* one that it is not in effect an uncertainty at all (pp. 19, 20).

This distinction between uncertainties that can and that can not be measured Professor Knight raises to high theoretical importance by a clever exposition of pure economics. Note the steps in his argument:

Economics is the study of a particular form of organization of human want-satisfying activity.....called free enterprise or the competitive system (p. 9).

The primary attribute of competition.....is the "tendency" to eliminate profit or loss, and bring the value of economic goods to equality with their cost.....But in actual society, cost and value only "tend" to equality; they are usually separated by a margin of "profit," positive or negative (pp. 18, 19).

The fundamental difference between "the perfect competition of theory and the remote approach to it which is made by the actual competition of, say, twentieth-century United States" is the absence in the first case and the presence in the second case of uncertainty, properly defined. Hence the dominating importance of this concept for economic theory. Along with the characteristics which differentiate the world of pure theory from the world of experience, uncertainty supplies the explanations of interest and profits.

Anyone acquainted with the exposition of economic theory from Jevons and Clark to Wicksteed and Schumpeter can forecast the course of the discussion which follows. First comes the "analytical construction of a perfectly competitive society" (p. 174). Then the suppositions in this construction which diverge from "real life" are modified or dropped one by one. Of course most of the time-honored issues of economic theory come up for comment in the course of the journey, and on each of them the writer has something to say—some-

thing which must be classified and catalogued by the erudite sojourners in this land of speculation. As chapter succeeds chapter, the sophisticated reader gains a pleasant sense of traversing familiar country with a guide who has found new by-paths and who selects a novel pausing-point from which to survey each of the well-known landscapes. And Professor Knight has the merit, common among "pure theorists," of always knowing where he is and telling where he is going next. As he says in the preface, this book "represents an attempt to state the essential principles of the conventional economic doctrines more accurately, and to show their implications more clearly, than has previously been done. That is, its object is refinement."

Whether this characterization will excite or deaden interest depends upon the make-up of the reader. But even those who prefer a very different type of economic theory should taste the book before putting it aside. For the distinction between risk and uncertainty is not less valid to the realistic economist than to the pure theorist. Moreover, Professor Knight plays the dialectical game with delightful skill. His book is thoroughly organized as a whole, well written in detail, and not over long. It is the fresh work of a young man of marked ability who has profited by the teaching of Alvin Johnson, Allyn Young, Herbert Davenport, and Maurice Clark—a young man interested in economic history and philosophy, and one who has had the self-control to rewrite his disquisition twice before going to press. Anyone who wishes to see what can still be accomplished in economics along the conventional lines of pure theory will scarcely find a better or pleasanter sample to study. And anyone who wishes himself to cultivate pure theory will find here abundant provocation of the sort he likes. With a little ingenuity he can make as many occasions for differing from Knight's "rigorous thinking" (p. vii) as Knight makes for differing from Clark and Fisher, Fetter and Davenport.

WESLEY C. MITCHELL.

The Ricardian Rent Theory in Early American Economics. By JOHN ROSCOE TURNER. (New York: New York University Press. 1921. Pp. xix, 201.)

Professor Turner has examined critically the economic writings of Raymond, Everett, Phillips, McVickar, Cooper, Newman, Wayland, Vethake, Cordoza, Tucker, Carey, Bowen, Bascom, Amasa Walker, Perry, and some lesser economists. He has explored a mine of interesting contributions which has been practically neglected by American economists of this generation. And this neglect of their own by the American economists has resulted in a similar neglect on the part of foreign economists. Gide and Rist, in their *History of Economic Doctrines*, mention only four of the fifteen economists whose writings